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CCGL9025 The Political Economy of Growth and Poverty in the World
Term Paper

The Ineffectiveness of Loan Agreements in Central Asian Countries: An Analysis of Legal, Economic, and Institutional Failures

Introduction

In scientific circles, it is often discussed how efficient foreign aid is in assisting recipient countries to overcome poverty, bolster technological development, and generally progress economic activity. In this way, while J. Sachs (2005) examines the aid as a catalyst for economic growth and development, U. Easterly (2006) reverses that idea, arguing that since recipient countries become more dependent on foreign loans, it hinders economic growth. Acknowledging the significance of foreign aid in developing interpersonal ties and networks, this research will cover how Central Asian countries are in the risk of being worse off after receiving that assistance. The study will illustrate three types of failures that post-Soviet countries face: legal, economic, and institutional. To overcome such hardships, the loan agreements should be more personalized so that it would fit the historic framework of Central Asian countries and more attention should be given to diversification of the economy's financial aid fundings.

Donor countries and their pursuing

Among the countries that provide financial aid to Central Asian countries, China has the greatest share. Being active partakers in the Belt and Road Initiative, all five states of the region receive most of the assistance from their eastern neighbor. To outline China's intrinsic aims in providing help to its neighbors, evaluation of its current policies and achievements is necessary. The dissolution of Soviet Union eliminated the threats of USSR's unwanted interference in Uyghur community, but to maintain peace in Xinjiang, Beijing had to resolve these territorial disputes by acquiring respective lands after negotiations (Kassenova, 2022). Kassenova (2022) also mentions that undermining Moscow's influence in Central Asia's region and being able to independently coordinate individual engagement were Beijing's one of the primary goals in 2013. Thus, China was aiming to relegate OECD-led multilateral donor arrangements into the background and promote China-initiated aid plans such as Shanghai Cooperation Organization for Central Asia and the Forum on China-Africa Cooperation (Kassenova, 2022).

For Russia, interaction with CIS countries is primarily focused on developing bilateral relations that will promote mutually beneficial cooperation, based on peculiarities of the political regimes that each member has (Zabeyvorota, 2017). According to Zabeyvorota (2017), that interaction is in Russia's best interests to avoid its nominal participation in unification of post-Soviet countries otherwise. On the other hand, Komarov (2023) states that Russia's primary goal in Central Asia was maintaining the facade of "the great empire" parodying United States' economic power. Though opinions may vary, integration between Russian and Central Asian economies cannot be considered one-sided due to interdependence of labor markets, current unrest in western Russia, and West's rising interest in Central Asia.

The last bloc of countries interested in Central Asia is collective West. Umarov (2024) touched upon significant increases in investments from European Union, namely, Germany investing $770 million in the Kazakh economy in 2023, which is 64% more than a year earlier. For the Uzbekistan, German investments has increased 11 times since 2017. All three blocs have individual interests in Central Asia, but the study will focus primarily on China due to its greatest influence on the region in the last few years.

Heterogeneity in the dependency of recipient countries

There are 5 countries in Central Asia: Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan. When analyzing the scope of vulnerability to foreign aid, it is important to note their heterogeneity in political, ethnical, and economical frameworks. Additionally, according to Umarov (2024) the credit policy of Russia and China is aimed at different countries. Whilst Moscow lends to Kazakhstan and Uzbekistan, China is the main creditor of the Tajikistan and Kyrgyzstan, in which external debt is approaching 40%. Turkmenistan, being the only country with relatively low debts rates on both fronts (Kaleji, 2024). Thus, each country's loss of economic sovereignty could fall under each category of economic failure to a different extent.

Legal Failure

Lack of transparency and weak legal frameworks are the most prevalent cases of legal failures in the named CIS countries. According to Kashin and Korolev (2018), Chinese aid to other countries is decentralized and opaque. It is not even possible to estimate the total amount of China's assistance to Central Asia, as well as to each individual country in the region. The official statistics of the People's Republic of China do not provide such data, a significant part of the information on the volume and nature of assistance is of a closed nature (Kashin and Korolev, 2018). This lack of transparency in loan agreements make it difficult for the public and oversight bodies to assess the terms and conditions of borrowing, which in turn causes major public doubts. Kerr (2010) said relations between Central Asia and Beijing are often described as "a warm policy, a cold public" since the political elites of the region's republics mostly welcome Chinese investments and foreign aid packages, whilst among public it induces xenophobic sentiments. The terrorist attack in Bishkek near the Chinese Embassy in 2016 could serve as a striking example of people's opposition of massive economic expansion of China (Kashin and Korolev, 2018).

Some post-Soviet countries have weak legal frameworks for debt management and public finance, leading to challenges in monitoring and regulating borrowing activities. For instance, in Kyrgyzstan, the absence of robust legal mechanisms for debt management has contributed to the accumulation of external debt and fiscal vulnerabilities. In 2022, its external debt, amounted to almost 49% of GDP, consisting of 230 loans, of which 98% were received on preferential terms with the interest rate is 0.1–2.0% and the maturity is up to 40 years (Ruslanova, 2022). China accounted for 40% of the whole debt, which illustrates that because of easily distributed loans, their difficult repayment, and opacity of procedures, Beijing places Kyrgyzstan in the position where it cannot manage all its current debts. Thus, these huge debt obligations put economic and political stability in the country at risk and make Kyrgyzstan dependent on the interests of external players, mainly China.

Economic Failures

Economic failures in post-Soviet countries can be seen in the accumulation of unsustainable levels of debt, leading to debt distress and repayment difficulties. For example, Kyrgyzstan, being the largest creditor to the Export-Import Bank of the People's Republic of China owes it $1.7 billion and spends $200-300 million annually on debt servicing (Zakharov and Rahimzoda, 2024). In political circles, due to the severity of the situation President S. Zhaparov noted that if the country is unable to fulfill its loan obligations, it risks losing a number of strategic assets, including power plants, power transmission lines and the alternative North-South highway (Zakharov and Rahimzoda, 2024).

Tajikistan is the second largest recipient of foreign aid in the region with a total volume of $5.9 billion (Zakharov and Rahimzoda, 2024). As in the case with Kyrgyzstan, not being able to repay its debts, Tajikistan is pushed into a debt pit and forced to refund by giving access to its natural resources. In 2011, in exchange for debt cancellation, 1.158 km2 of territory in the remote Pamir Mountain range were ceded to China, which is 0.77% of the entire territory of Tajikistan (Dzamukashvili, 2022). In 2017, Dushanbe allowed the opening of a Chinese military base in the Gorno-Badakhshan Autonomous Region. In 2019,

TajiKistan, unable to repay the debt for the construction of an expensive power plant, granted China the rights to explore deposits and extract gold at the Vostochnaya Duoba and Verkhny Kumarg deposits (Zakharov and Rahimzoda, 2024). In this way, using Kyrgyzstan's and Tajikistan's inability to repay their debts, China is actively using their natural resources, taking their territory, and imposing threats on their economic sovereignty.

Institutional Failures

When the CIS was created, the leaders of the post-Soviet republics were leaning both towards the idea of strengthening national separatism through disintegration of the monolith of the national state structure and preserving and multiplying the benefits of historical integration (Zabeyvorota, 2017). Today, the issue stemming from that integration is excessive reliance of both Russia and Central Asian bloc on each other. The interconnectedness was easily noted when economic crises in Russia due to sanctions have an immediate impact on stability in Central Asia. According to Umarov (2024) in 2022, inflation jumped by 19.8% in Kazakhstan, 16.7% in Kyrgyzstan, 13.8% in Uzbekistan, 11.2% in Turkmenistan and 6% in Tajikistan.

Institutional failures can also be attributed to corruption and political interference in the management of loan agreements. For instance, in Kyrgyzstan, corruption remains one of the most widespread phenomena. Zhakharov and Rahimzoda (2024) argue that foreign aid has not only plunged Kyrgyzstan in debt, but it has also exacerbated the problems of corruption. The overthrow of the president A. Atambayev and his sentence to 11 years in prison revealed how he, Prime Minister S. Isakov, and several high-ranking officials were erroneously distributing preferential loans in financing the implementation of infrastructure projects. In addition, International Monetary Fund (2014) reports that the damage from corruption is estimated at about $70 million annually, which is why foreign aid only exacerbates the problem.

Solution

One of the important steps to take in decreasing excess reliability on China is diversifying their suppliers. In such way, since 2014, Uzbekistan, has been buying more, in monetary terms, weapons from China than from Russia, whilst Turkmenistan has moved away from the Russian Chinese duopoly, establishing connections with Turkey (Umarov, 2024). Especially, in today's geopolitical situation, Central Asia has immense opportunities to benefit from the confrontation of the great powers and increase its financial aid from the collective West, whilst still upholding to the friendly terms with Moscow and Beijing. However, it is also important to note that the impact of China's debt-trap diplomacy has different effects on the region's countries (Kaleji, 2024). Whilst, Kazakhstan, Uzbekistan, and Turkmenistan have manageable financial debts, Kyrgyzstan and Tajikistan should be much more careful in their future endeavours with monetary diplomacies with China due to their relative economic vulnerability.

Conclusion

Overall, the effectiveness of the foreign aid depends on the legal and institutional frameworks that have been established in the countries of Central Asia. Transparency around how that aid is distributed across the nation and under which conventions and requirements it is given are another significant factor to consider when analyzing the effectiveness of the foreign aid. Easterly (2006) also argued that economic development is deeply interconnected with the willingness of the local politicians and entrepreneurs to make change, so donor countries should focus more on enhancing the existing systems that hinder recipient countries' economic development. As of now, mentioned five countries are given an opportunity to seize benefits from confrontation of the great powers and diversify their donors for foreign aid, which would ensure some extent of security. It is also advised to lean not towards just one country's help and fund more anti-corruption objective institutions to minimize risks of going default.

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